

**SHELBYVILLE POWER,
WATER AND SEWERAGE SYSTEMS**

**ANNUAL FINANCIAL REPORT
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2011

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
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INTRODUCTORY SECTION

**SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
BOARD OF DIRECTORS AND MANAGEMENT
JUNE 30, 2011**

BOARD OF DIRECTORS

Rayburn Sudberry, Chairman

Herby Powell, Secretary

James Darden

Claudia Mallard

Robert Finney

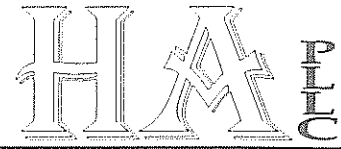
MANAGEMENT

David Crowell, General Manager

Garrett Gordon, Administrative Manager

FINANCIAL SECTION

HOUSHOLDER ARTMAN, PLLC
CERTIFIED PUBLIC ACCOUNTANTS



P.O. Box 1568
Tullahoma, Tennessee 37388

INDEPENDENT AUDITORS' REPORT

Telephone 931-455-4248
Fax 931-393-2122

February 6, 2012

Board of Directors
Shelbyville Power, Water and Sewerage Systems
Shelbyville, Tennessee

We have audited the accompanying financial statements of Shelbyville Power, Water and Sewerage Systems of Shelbyville, Tennessee, as of and for the year ended June 30, 2011 as listed in the table of contents. These financial statements are the responsibility of Shelbyville Power, Water and Sewerage Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Shelbyville Power, Water and Sewerage Systems and do not purport to, and do not, present fairly the financial position of the City of Shelbyville, Tennessee, as of June 30, 2011 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shelbyville Power, Water and Sewerage Systems as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2012 on our consideration of Shelbyville Power, Water and Sewerage Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages A-1 through A-7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelbyville Power, Water and Sewerage Systems' basic financial statements. The supplementary information on pages 15-18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of federal and state financial assistance on page 19 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Shelbyville Power, Water, and Sewerage Systems. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and supplemental information on pages 20-24 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Housholder Artman PLLC

MEMBERS

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

The Shelbyville Power, Water & Sewerage System is composed of three separate divisions that are financially accounted for on a separate basis. All divisions are reportable to the General Manager. The General Manager reports to a five-member board that is appointed by the Mayor and the City Council of the City of Shelbyville, TN. The following is a discussion and overview of the financial activities of the system for fiscal year ending June 30, 2011 as compared to fiscal year ending June 30, 2010.

FINANCIAL HIGHLIGHTS

- The assets of the Systems exceeded their liabilities at the close of the most recent fiscal year by \$65,412,629. Of this amount, \$22,658,785 may be used to meet the Systems ongoing obligations to suppliers and creditors.
- The Systems total net assets increased by \$3,495,075.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Systems' basic financial statements. This annual report consists of three components: Management's Discussion and Analysis; the Financial Statements; and Notes to the Financial Statements. The notes explain in more detail some of the information in the Financial Statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Overview of the Financial Statements

The financial statements of the Systems report information about the Systems using accounting methods similar to those used by private sector companies. These statements offer short-term (current) and long-term (noncurrent) financial information about its activities. The *Statement of Net Assets* includes all of the Systems' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing operating results, evaluating the capital structure of the Systems and assessing the liquidity and financial flexibility of the Systems. All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Systems' operations over the past year, and can be used to determine whether the Systems have successfully recovered its costs through user fees and other charges, and to assess its profitability, and credit worthiness. The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the Systems' cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the change in the cash balance during the reporting period.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information as listed in the table of contents.

SYSTEM WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The statement of net assets is very solid. Plant is being well maintained and improved based on needs forecast well into the future. Debt is being conservatively managed with debt service coverage leverage ratios that are more than adequate. Cash reserves are more than adequate for all systems.

The Systems' Net Assets (as of June 30,)

	2011	2010
Capital assets	\$ 55,931,345	\$ 52,900,032
Current and other assets	29,282,711	25,310,936
Total assets	<u>85,214,056</u>	<u>78,210,968</u>
Long-term liabilities	13,842,988	10,233,487
Other liabilities	5,958,439	6,059,930
Total liabilities	<u>19,801,427</u>	<u>16,293,417</u>
Net assets:		
Invested in capital assets, net of related debt	41,585,259	41,610,084
Restricted	1,168,585	1,899,676
Unrestricted	22,658,785	18,407,791
Total net assets	<u>\$ 65,412,629</u>	<u>\$ 61,917,551</u>

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

Power System

Total power assets went from \$29,702,557 fiscal year ending June 30, 2010 to \$32,123,570 fiscal year ending June 30, 2011. Current assets went from \$12,285,957 to \$14,755,698. Plant, net of accumulated depreciation, decreased from \$16,959,522 to \$16,834,365. Other assets went from \$254,937 to \$346,955.

Total power liabilities went from \$4,625,851 to \$4,787,143. Current liabilities went from \$3,867,389 to \$4,123,695. Long-term liabilities went from \$758,462 to \$663,448.

Water System

Total water system assets went from \$23,050,356 to \$23,513,221. Current assets went from \$6,342,428 to \$7,178,334. Plant, net of accumulated depreciation, decreased from \$15,741,615 to \$15,376,330.

Total liabilities increased from \$3,818,869 to \$3,837,469. Long-term liabilities decreased from \$3,315,276 to \$3,206,313.

Sewer System

Total sewer system assets increased from \$25,458,055 to \$29,577,265. Current assets went from \$4,275,922 to \$5,583,243. Plant, net of accumulated depreciation, increased from \$20,198,895 to \$23,720,650.

Total liabilities went from \$7,848,697 to \$11,176,815. Long-term liabilities increased from \$6,159,749 to \$9,973,227.

Statement of Revenues, Expenses and Change in Net Assets

The statement of revenues, expenses and changes in net assets for each of the three divisions indicates healthy financial management and what we think is the appropriate balance between the spending necessary to deliver our services to the customer versus holding costs, and therefore rates, as low as practically possible. We are at or above peer level with respect to margin, efficiency and operating ratios.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

The Systems' Changes in Net Assets (for the year ended June 30,)

	2011	2010
Operating revenues:		
Charges for services	\$ 43,604,877	\$ 37,822,533
Other operating income	700,562	661,390
Total operating revenues	44,305,439	38,483,923
Expenses:		
Purchased power	29,630,031	24,695,225
Operational expenses	6,377,825	6,451,956
Maintenance expenses	1,802,674	1,925,875
Depreciation and amortization	2,344,734	2,517,052
Total operating expenses	40,155,264	35,590,108
Operating income	4,150,175	2,893,815
Nonoperating revenues (expenses):		
Interest income	170,893	220,949
Interest expense	(359,658)	(374,347)
Other income (expense)	(4,327)	(3,124)
	(193,092)	(156,522)
Income before capital contributions	3,957,083	2,737,293
Transfer to City of Shelbyville	(539,430)	(510,806)
Capital contributions	77,425	266,394
Change in net assets	3,495,078	2,492,881
Net assets, beginning	61,917,551	59,424,670
Net assets, ending	\$ 65,412,629	\$ 61,917,551

Power System

Income before capital contributions for the power system increased from \$2,323,798 in fiscal year ending 2010 to \$2,799,151 in fiscal year ending 2011. Total operating revenue increased from \$31,068,716 to \$36,494,472. This is a function of weather, growth in our customer base, rate increases, and unbilled revenue. Operational and maintenance expenses decreased from \$3,315,047 in 2010 to \$3,251,829 in 2011. Interest expense decreased from \$55,459 to \$48,509.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

Water System

Income before capital contributions increased from \$276,973 to \$394,615. Total operating revenue showed an increase from \$3,966,928 to \$4,026,890. Operational and maintenance expenses decreased from \$2,836,737 to \$2,738,916. Interest expense decreased from \$142,626 to \$140,260.

Sewer System

Income before capital contributions for the Sewer System went from \$136,522 in fiscal year ending 2010 to \$763,317 in fiscal year ending 2011. Sewer rates are based on water usage and bill at approximately 135% of the water rate. Sewer operational and maintenance expenses showed a decrease from \$2,226,047 to \$2,189,754. Interest expense decreased from \$176,262 to \$170,889.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets – The Systems' investment in capital assets as of June 30, 2011 amounts to \$55,931,345 (net of accumulated depreciation). Depreciation charges for the year totaled \$2,512,719.

The Systems' Capital Assets (as of June 30,)

	2011	2010
Land and land rights	\$ 636,162	\$ 636,162
Structures and improvements	18,741,520	18,656,667
Distribution plant	63,143,855	62,553,010
Furniture and fixtures	731,675	714,188
Transportation equipment	2,257,534	2,035,289
Equipment	1,837,274	1,821,693
Construction in process	8,016,687	3,774,889
Less: Accumulated depreciation	(39,433,362)	(37,291,866)
	<u>\$ 55,931,345</u>	<u>\$ 52,900,032</u>

The total decrease in the Systems' investment in capital assets for the current fiscal year was \$3,031,313 (5.73%).

Additional information on the Systems' capital assets can be found in Note 3 of this report.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

Notes and bonds payable and other obligations – At the end of the current fiscal year, the Systems had total outstanding debt for notes, bonds, and other obligations of \$14,549,420.

The Systems' Notes and Bonds and Other Obligations Outstanding (as of June 30,)

	2011	2010
Bonds payable	\$ 5,735,000	\$ 5,910,000
Less: deferred loss	(81,218)	(86,288)
	<u>5,653,782</u>	<u>5,823,712</u>
Notes payable	8,871,470	5,648,973
Less: deferred loss	(4,165)	(7,737)
	<u>8,867,305</u>	<u>5,641,236</u>
Net OPEB obligation	<u>28,333</u>	<u>13,740</u>
Total outstanding debt	<u>\$ 14,549,420</u>	<u>\$ 11,478,688</u>

Power system notes, bonds and other obligation debt at fiscal year end 2011 was \$390,279.

Water system notes, bonds and other obligation debt was \$3,266,039.

Sewer system notes, bonds and other obligation debt totaled \$10,893,102.

Additional information on the Systems' outstanding debt can be found in Note 4 of this report.

Rates

Power system rates increased along with TVA rates quarterly during the fiscal year.

Water system rates increased as of January 1, 2010.

Sewer system rates increased as of January 1, 2011.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Systems' finances and to demonstrate the Systems' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager at Shelbyville Power, Water and Sewerage Systems, 308 South Main Street, Shelbyville, TN 37160.

FINANCIAL STATEMENTS

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Business-Type Activities			
	Power System	Water System	Sewerage System	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 9,994,636	\$ 6,658,690	\$ 5,219,234	\$ 21,872,560
Accounts receivable, net of allowance for doubtful accounts	3,040,061	347,315	325,018	3,712,394
Unbilled revenue	982,771	-	-	982,771
Other receivables	67,318	-	774	68,092
Inventory	395,448	166,731	37,817	599,996
Due from other funds	270,836	1,698	400	272,934
Other assets	4,628	3,900	-	8,528
Total Current Assets	14,755,698	7,178,334	5,583,243	27,517,275
Restricted Assets:				
Restricted cash and cash equivalents	186,552	942,801	273,372	1,402,725
Total Restricted Assets	186,552	942,801	273,372	1,402,725
Capital Assets:				
Plant in service	29,883,790	29,280,783	36,200,134	95,364,707
Less accumulated depreciation	(13,049,425)	(13,904,453)	(12,479,484)	(39,433,362)
Total Property, Plant and Equipment	16,834,365	15,376,330	23,720,650	55,931,345
Other Assets:				
Energy conservation loans	343,637	-	-	343,637
Unamortized bond expense	3,318	15,756	-	19,074
Total Other Assets	346,955	15,756	-	362,711
Total Assets	\$ 32,123,570	\$ 23,513,221	\$ 29,577,265	\$ 85,214,056
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	\$ 2,681,084	\$ 147,904	\$ 65,860	\$ 2,894,848
Notes payable-current portion	195,000	-	916,034	1,111,034
Accrued expenses and other liabilities	18,202	-	-	18,202
Accrued interest	8,484	-	45,503	53,987
Due to other funds	-	153,163	119,771	272,934
Customer deposits	1,220,925	145,949	6,420	1,373,294
Total Current Liabilities	4,123,695	447,016	1,153,588	5,724,299
Liabilities Payable from Restricted Assets:				
Bonds payable-current portion	-	125,000	50,000	175,000
Accrued interest	-	59,140	-	59,140
Total Liabilities Payable from Restricted Assets	-	184,140	50,000	234,140
Long-Term Debt:				
Conservation-TVA Program	343,637	-	-	343,637
Accrued vacation	124,533	65,274	46,159	235,966
Bonds payable, net of deferred loss on refunding	-	3,131,594	5,858,275	8,989,869
Notes payable-noncurrent portion, net	185,834	-	4,059,349	4,245,183
Net OPEB liability	9,444	9,445	9,444	28,333
Total Long-Term Debt	663,448	3,206,313	9,973,227	13,842,988
Total Liabilities	4,787,143	3,837,469	11,176,815	19,801,427
<u>Net Assets</u>				
Invested in capital assets, net of related debt	16,453,531	12,244,736	12,886,992	41,585,259
Restricted	186,552	758,661	223,372	1,168,585
Unrestricted	10,696,344	6,672,355	5,290,086	22,658,785
Total Net Assets	\$ 27,336,427	\$ 19,675,752	\$ 18,400,450	\$ 65,412,629

The accompanying notes are an integral part of this financial statement.

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
STATEMENT OF REVENUE, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities			
	Power System	Water System	Sewerage System	Total
Operating Revenues:				
Charges for services	\$ 35,895,087	\$ 3,970,105	\$ 3,739,685	\$ 43,604,877
Forfeited discounts and penalties	199,115	31,852	44,392	275,359
Rental income	261,872	-	-	261,872
Other operating revenue	138,398	24,933	-	163,331
Total Operating Revenues	36,494,472	4,026,890	3,784,077	44,305,439
Operating Expense:				
Purchased power	29,630,031	-	-	29,630,031
Operational expenses	2,518,699	2,015,990	1,843,136	6,377,825
Maintenance expense	733,130	722,926	346,618	1,802,674
Depreciation and amortization	824,243	838,951	681,540	2,344,734
Total Operating Expenses	33,706,103	3,577,867	2,871,294	40,155,264
Operating Income	2,788,369	449,023	912,783	4,150,175
Nonoperating Revenues (Expenses):				
Interest income	63,618	85,852	21,423	170,893
Interest expense	(48,509)	(140,260)	(170,889)	(359,658)
Other income (expense)	(4,327)	-	-	(4,327)
Total Nonoperating Revenues (Expenses)	10,782	(54,408)	(149,466)	(193,092)
Income before capital contributions and transfers	2,799,151	394,615	763,317	3,957,083
Transfer to City of Shelbyville	(539,430)	-	-	(539,430)
Capital Contributions-other	-	49,650	27,775	77,425
Changes in net assets	2,259,721	444,265	791,092	3,495,078
Total net assets, beginning	<u>25,076,706</u>	<u>19,231,487</u>	<u>17,609,358</u>	<u>61,917,551</u>
Total net assets, ending	<u>\$ 27,336,427</u>	<u>\$ 19,675,752</u>	<u>\$ 18,400,450</u>	<u>\$ 65,412,629</u>

The accompanying notes are an integral part of this financial statement.

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities			Total
	Power System	Water System	Sewerage System	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 35,112,713	\$ 4,001,319	\$ 3,724,432	\$ 42,838,464
Cash paid to suppliers	(31,100,177)	(1,207,617)	(1,421,223)	(33,729,017)
Cash paid to employees	(1,472,134)	(1,396,851)	(795,713)	(3,664,698)
Net Cash Provided by Operating Activities	2,540,402	1,396,851	1,507,496	5,444,749
Cash Flows for Capital Financing Activities:				
Capital contributions	-	49,650	27,775	77,425
Donated labor	(4,327)	-	-	(4,327)
Proceeds from issuance of long-term debt, net of issuance cost	-	-	3,834,253	3,834,253
Acquisition and construction of capital assets	(692,669)	(468,746)	(4,201,169)	(5,362,584)
Principal paid on long-term debt	(195,000)	(125,000)	(466,756)	(786,756)
Interest paid on long-term debt	(51,301)	(140,402)	(171,810)	(363,513)
Net Cash Used by Capital Financing Activities	(943,297)	(684,498)	(977,707)	(2,605,502)
Cash Flows from Non-Capital Financing Activities:				
Increase in customer deposits	44,163	18,008	-	62,171
Issuance of energy conservation loans	(94,863)	-	-	(94,863)
Payments to DREMC for transfer of members	(26)	-	-	(26)
Transfer to City of Shelbyville	(539,430)	-	-	(539,430)
Advances from TVA-Home Weatherization Program	94,863	-	-	94,863
Net Cash Provided (Used) by Non-Capital Financing Activities	(495,293)	18,008	-	(477,285)
Cash Flows from Investing Activities:				
Interest and other income	65,176	87,639	21,722	174,537
Net Cash Provided by Investing Activities	65,176	87,639	21,722	174,537
Net Increase in Cash and Cash Equivalents	1,166,988	818,000	551,511	2,536,499
Cash and Cash Equivalents, Beginning of Year	9,014,200	6,783,491	4,941,095	20,738,786
Cash and Cash Equivalents, End of Year	<u>\$ 10,181,188</u>	<u>\$ 7,601,491</u>	<u>\$ 5,492,606</u>	<u>\$ 23,275,285</u>
Cash and Cash Equivalents consist of:				
Unrestricted cash and cash equivalents	\$ 9,994,636	\$ 6,658,690	\$ 5,219,234	\$ 21,872,560
Restricted cash and cash equivalents	186,552	942,801	273,372	1,402,725
	<u>\$ 10,181,188</u>	<u>\$ 7,601,491</u>	<u>\$ 5,492,606</u>	<u>\$ 23,275,285</u>

Reconciliation of Operating Income to Net Cash Provided by Operations

Operating Income	\$ 2,788,369	\$ 449,023	\$ 912,783	\$ 4,150,175
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	824,243	838,951	681,540	2,344,734
Provision for bad debts	97,597	22,591	30,296	150,484
Changes in assets and liabilities:				
Accounts receivable	(1,381,759)	(25,571)	(59,644)	(1,466,974)
Inventory	(18,316)	(10,092)	(17,233)	(45,641)
Other assets	36,335	-	-	36,335
Due from other funds	(22,581)	(843)	339	(23,085)
Accounts payable	213,663	101,400	(61,233)	253,830
Other liabilities	-	-	4,862	4,862
Due to other funds	(76)	8,298	14,865	23,087
Accrued expenses	2,927	13,094	921	16,942
Total adjustments	(247,967)	947,828	594,713	1,294,574
Net cash provided by operating activities	<u>\$ 2,540,402</u>	<u>\$ 1,396,851</u>	<u>\$ 1,507,496</u>	<u>\$ 5,444,749</u>

The accompanying notes are an integral part of this financial statement.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Shelbyville Power, Water and Sewerage Systems (Systems), of the City of Shelbyville, Tennessee, have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below:

Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units and criteria set forth in GASB Statement No. 14. The financial statements encompass the operations of the Shelbyville Power System, the Shelbyville Water System, and the Shelbyville Sewerage System, which operate under a grant of power by Chapter 465 of the Private Acts of Tennessee of 1939 and the Amended Charter of the City of Shelbyville, Tennessee.

Fund Accounting

The Shelbyville Power, Water and Sewerage Systems, proprietary fund types, account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Basis of Accounting

The accrual basis of accounting is utilized by the proprietary fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Systems have adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting." The Systems apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions; issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB Pronouncements. The Systems have elected not to apply FASB Statements and interpretations issued after November 30, 1989.

Proprietary funds distinguish between **operating** and **non-operating** items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with the fund's principal ongoing operations and consist primarily of charges to customers or departments, cost of sales and services, administrative expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

The Systems adopted the provisions of Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt is included in the same net assets component as the unspent proceeds.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes petty cash and amounts in demand deposits and money market accounts. Cash in excess of current requirements is invested in various interest-bearing accounts such as certificate of deposits with financial institutions and carried at cost. For purposes of the statement of cash flows all cash deposits and certificates of deposits with an original maturity of three months or less when acquired are considered to be cash equivalents.

Plant and Equipment

Capital assets of the Systems are recorded at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation is computed using the straight-line method over estimated asset lives ranging from 3 to 50 years. Major additions and betterments are capitalized while expenditures for maintenance and repairs that do not add value to the asset or materially extend asset lives are charged to operations as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest cost incurred due to the issuance of long-term debt during the construction of facilities is capitalized as part of the cost of such activities. Capitalized interest as of June 30, 2011 totaled \$46,537.

Inventory

Materials and supplies are stated at the lower of cost or market, with cost being determined on an average cost basis.

Tennessee Valley Authority (TVA) Energy Conservation Program

Shelbyville Power System is a fiscal intermediary for the TVA energy conservation program whereby loans are made to the System's customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to the System's customers are funded and guaranteed by TVA. These loans to customers are recorded as other assets, with the corresponding liability to TVA recorded as long-term debt.

Contributed Capital

The Systems have received federal and state grants to pay a portion of the costs of construction projects. The Water and Sewerage systems record tap fees in excess of the cost of installation.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and an unpaid liability is reflected as compensated absences payable.

Bond Discounts/Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

Accounts Receivable

The Systems use the reserve method, based upon a review of the current status of receivables and historical experience, in determining bad debt expense. The reserve at June 30, 2011 is \$118,975. Bad debt expense for the current year is \$150,484.

Date of Management's Subsequent Review

Management has evaluated subsequent events through February 6, 2012, which is the date the financial statements were available to be issued.

NOTE 2 - CASH AND CASH EQUIVALENTS

At June 30, 2011, the carrying amount of the Systems' deposits was \$23,275,285 and the amount of the banks balances was \$25,525,098. Of the banks balances, \$2,125,433 was covered by Federal depository insurance, and \$6,440,977 was collateralized with securities pledged that comply with statutes as acceptable collateral, and \$16,958,688 was collateralized by the banks participation in the Tennessee State Collateral Pool.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 - CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Reclassifications and Retirements	Balance June 30, 2011
Capital assets not being depreciated:				
Land and land rights	\$ 636,162	\$ -	\$ -	\$ 636,162
Construction in process	3,774,889	10,644,221	(6,402,423)	8,016,687
	<u>4,411,051</u>	<u>10,644,221</u>	<u>(6,402,423)</u>	<u>8,652,849</u>
Capital assets being depreciated:				
Structures and improvements	18,656,667	84,853	-	18,741,520
Distribution plant	62,553,010	741,862	(151,017)	63,143,855
Furniture and fixtures	714,188	17,487	-	731,675
Transportation equipment	2,035,289	222,245	-	2,257,534
Equipment	1,821,693	15,581	-	1,837,274
	<u>85,780,847</u>	<u>1,082,028</u>	<u>(151,017)</u>	<u>86,711,858</u>
Less accumulated depreciation:				
Structures and improvements	(4,532,838)	(551,092)	-	(5,083,930)
Distribution plant	(28,419,967)	(1,723,482)	285,696	(29,857,753)
Furniture and fixtures	(636,045)	(16,535)	5,291	(647,289)
Transportation equipment	(1,921,762)	(177,077)	61,739	(2,037,100)
Equipment	(1,781,254)	(44,533)	18,497	(1,807,290)
	<u>(37,291,866)</u>	<u>(2,512,719)</u>	<u>371,223</u>	<u>(39,433,362)</u>
Total capital assets, being depreciated net	<u>48,488,981</u>	<u>(1,430,691)</u>	<u>220,206</u>	<u>47,278,496</u>
Total capital assets, net	<u>\$ 52,900,032</u>	<u>\$ 9,213,530</u>	<u>\$ (6,182,217)</u>	<u>\$ 55,931,345</u>

Depreciation expense and amounts charged to construction in process for the year ended June 30, 2011 for the three systems are as follows:

	Total	Charged to Other Accounts	Expense Amount
Power	\$ 979,132	\$ 161,305	\$ 817,827
Water	835,664	1,632	834,032
Sewerage	697,923	18,512	679,411
	<u>\$ 2,512,719</u>	<u>\$ 181,449</u>	<u>\$ 2,331,270</u>

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 - BONDS, NOTES, AND OTHER OBLIGATIONS

The following is a summary of debt transactions for the year ended June 30, 2011:

	<u>Oustanding July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Oustanding June 30, 2011</u>
<u>Bonds Payable</u>				
Water System Refunding				
Bonds, Series 2003	\$ 3,405,000	\$ -	\$ (125,000)	\$ 3,280,000
Less: Deferred Loss	(26,348)	2,942	-	(23,406)
	<u>3,378,652</u>	<u>2,942</u>	<u>(125,000)</u>	<u>3,256,594</u>
 Water and Sewer Revenue and Tax Bonds, Series 2007	 2,505,000	 -	 (50,000)	 2,455,000
Less: Deferred Loss	(59,940)	2,128	-	(57,812)
	<u>2,445,060</u>	<u>2,128</u>	<u>(50,000)</u>	<u>2,397,188</u>
	5,823,712	5,070	(175,000)	5,653,782
 <u>Notes Payable</u>				
Power System Revenue and Tax				
Refunding Notes, Series 2002	580,000	-	(195,000)	385,000
Less: Deferred Loss	(7,737)	3,572	-	(4,165)
	<u>572,263</u>	<u>3,572</u>	<u>(195,000)</u>	<u>380,835</u>
 Sewerage System - Tennessee				
Revolving Loan Fund	3,915,223	-	(200,352)	3,714,871
 Sewerage System - Tennessee				
Revolving Loan Fund	1,153,750	3,834,253	(216,404)	4,771,599
	<u>5,641,236</u>	<u>3,837,825</u>	<u>(611,756)</u>	<u>8,867,305</u>
 <u>Other</u>				
Net OPEB Obligation:				
Power	4,580	4,864	-	9,444
Water	4,580	4,865	-	9,445
Sewer	4,580	4,864	-	9,444
	<u>13,740</u>	<u>14,593</u>	<u>-</u>	<u>28,333</u>
 Total bonds, notes and other obligations	<u>\$ 11,478,688</u>	<u>\$ 3,857,488</u>	<u>\$ (786,756)</u>	<u>\$ 14,549,420</u>

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 - BONDS, NOTES, AND OTHER OBLIGATIONS (Continued)

Bonds payable as of June 30, 2011:	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Outstanding</u>
Water System - Revenue and Tax Improvement Bonds, Series 2003	2 - 4.625%	8/1/2028	\$ 4,750,000	\$ 3,280,000
Water and Sewer Revenue and Tax Bonds, Series 2007	4 - 4.50%	8/1/2037	2,600,000	2,455,000
Notes payable as of June 30, 2011:				
Power System - Revenue and Tax Refunding Notes, Series 2002	3 - 4.75%	8/1/2012	3,385,000	385,000
Sewerage System - Tennessee Revolving Loan Fund	1.70%	6/30/2037	4,496,263	3,714,871
Sewerage System - Tennessee Revolving Loan Fund*	-	-	<u>1,153,750</u>	<u>4,771,599</u>
Total bonds and notes payable				<u>\$ 14,606,470</u>

*This is a construction loan and terms of the loan will be finalized when construction is complete.

The bonds are, among other things, secured by the revenues of the systems. In addition, the systems have complied with the bond resolution requirements as adopted by the Systems.

Annual debt service requirements for bonds and notes outstanding to maturity are as follows:

	<u>Bonds</u>		<u>Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 175,000	\$ 241,148	\$ 398,784	\$ 75,208	\$ 573,784	\$ 316,356
2013	185,000	234,585	397,276	62,593	582,276	297,178
2014	190,000	227,679	210,828	54,528	400,828	282,207
2015	200,000	220,360	214,440	50,916	414,440	271,276
2016	205,000	212,615	218,112	47,244	423,112	259,859
2017-2020	915,000	763,347	910,476	150,948	1,825,476	914,295
2021-2025	1,385,000	712,291	1,228,632	98,148	2,613,632	810,439
2026-2030	1,450,000	375,194	521,323	9,281	1,971,323	384,475
2031-2035	600,000	165,614	-	-	600,000	165,614
2036-2038	430,000	29,701	-	-	430,000	29,701
	<u>\$ 5,735,000</u>	<u>\$ 3,182,534</u>	<u>\$ 4,099,871</u>	<u>\$ 548,866</u>	<u>\$ 9,834,871</u>	<u>\$ 3,731,400</u>

*Since the terms of this loan have not been finalized, it is not included in the schedule above.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 - PENSION PLAN AND DEFERRED COMPENSATION

The Systems' defined benefit plan, "Shelbyville Power, Water, and Sewerage Systems" provides retirement and death benefits to plan members and beneficiaries. The Systems joined the Central Service Association Pension Plan (CSA), a cost sharing multiple employer defined benefit pension plan for utility systems in 1997. Benefits are determined by a formula using the member's average monthly earnings and years of service. A reduced retirement benefit is available to vested members who are age 55 and have 10 years of service. The CSA issues a publicly available financial report that includes the financial statements and required supplementary information for CSA. That report can be obtained by writing to CSA, P. O. Box 3480, Tupelo, Mississippi 38803-3480.

The Systems are required to contribute at an actuarially determined rate. The contribution requirements of plan members are established and may be amended by CSA. If a participant becomes totally disabled before termination of employment, he is 100% vested. After completing 5 years of service, an employee is entitled to 100% of his accrued benefit. The plan is available to employees after attaining age 24½ and completing 6 months of service. Market value of assets as of October 1, 2010 totaled \$11,077,162. Contributions totaled \$1,094,356 for both employer and employee portions. The covered payroll totaled \$3,445,010.

The Systems also offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan was adopted in November 1997. Participation in the plan is optional for employees who may defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The financial statements of the Section 457 plan are not reported in these financial statements since the Systems do not have any administrative involvement nor does it perform the investing function for the plan. The amounts deferred are held in trust for the exclusive benefit of employees and is not accessible by the Systems or their creditors. No employer contributions were made for the year ended June 30, 2011.

NOTE 6 - CONTINGENT LIABILITIES AND COMMITMENTS

Under its power contract, effective as of August 15, 1979, the System is committed to purchase its electric power from the Tennessee Valley Authority. This contract expired in 1999, and an amendment was signed to extend the contract. The amendment continues the contract for a term not less than 5 years, subject to termination by either party, with not less than five years written notice. The rates paid for the power and energy supplied by TVA shall be in accordance with the provisions of the Wholesale Power Rate – Schedule WS.

The water system and four other water systems in the Upper Duck River area entered into an agreement with the Tennessee Valley Authority (TVA) whereby, commencing February 25, 1972, each water system began paying monthly to TVA five cents (\$.05) for each 1,000 gallons of water sold by it during the preceding month. The funds will go to return the Agencies' portion of the debt incurred to build the Normandy and Columbia reservoirs. Such payments shall be made regardless of the source of water sold and shall continue until a total of \$16,200,000 has been paid to TVA by the group. There has been no division of the total liability between the parties to the contract.

The Systems are party to legal proceedings which normally occur in governmental operations. According to management, any proceeding is unlikely to have a material adverse effect on the Systems, as a whole.

In connection with the Tennessee Valley Authority, the Power System makes loans to individuals wishing to make their homes more energy efficient. The system is required to use the funds, including repayments, in making further loans, or to reduce the advances to the system by TVA.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 - CONTINGENT LIABILITIES AND COMMITMENTS (continued)

At June 30, 2011, Shelbyville, Power, Water and Sewerage Systems had several construction projects in process. The Systems take bids for these projects and awards construction contracts to various companies. See Note 10.

NOTE 7 - RISK MANAGEMENT

The Systems are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Systems purchase commercial insurance for claims and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Balances at June 30, 2011 are as follows:

Due from:	Due to:			
	Power	Water	Sewerage	Total
Water	\$ 152,763	\$ -	\$ 400	\$ 153,163
Sewerage	118,073	1,698	-	119,771
	<u>\$ 270,836</u>	<u>\$ 1,698</u>	<u>\$ 400</u>	<u>\$ 272,934</u>

The amounts due between funds represent payments made for operating expenses to be reimbursed by the applicable fund.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Beginning in August 2006, in addition to the pension benefits described in Note 6, the Systems allow employees to continue health insurance between the ages of 62 and 65. The employee will pay the premium except for a small amount contributed by the Systems that will be based on years of service. The Systems will fund the benefits on a pay-as-you-go basis. Payments in the amount of \$2,548 were made during the year ended June 30, 2011.

Plan Description

Shelbyville Power Water & Sewerage System sponsors a single-employer post retirement medical plan. The plan provides medical, prescription and death benefits to eligible retirees and their spouses.

Funding Policy

The System intends to continue its policy of funding OPEB liabilities on a pay-go basis and to not pre-fund any unfunded annual required contribution as determined under GASB 45.

Annual OPEB Cost and Net OPEB Obligation

The System's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB obligation.

Components of the Net OPEB Obligation

Annual Required Contribution	\$ 19,843
Interest on Net OPEB Obligation	617
Adjustment to Annual Required Contribution	<u>(970)</u>
Annual OPEB Cost (Expense)	19,490
Contributions Made	<u>(4,896)</u>
Increase in Net Obligation	<u>\$ 14,594</u>
 Net OPEB Obligation (BOY)	 \$ 13,739
 Net OPEB Obligation (EOY)	 \$ 28,333

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010-2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 19,491	25.1%	\$ 28,333
6/30/2010	\$ 19,821	39.4%	\$ 13,739
6/30/2009	\$ 19,843	91.3%	\$ 1,724

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Shelbyville Power Water & Sewerage System
Other Post-Retirement Benefits under GASB 45

Funded Status and Funding Progress

As of July 1, 2010 the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$158,132 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$158,132. The covered payroll (annual payroll of active employees covered by the plan) was \$3,397,441 and the ratio of the UAAL to the covered payroll was 5.66%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 8% initially, reduced by the decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement of plan asset returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2010 was 28 years.

NOTE 10 - CLEAN WATER STATE REVOLVING FUNDS

Beginning in 2007, the Sewerage System received funding for Sanitary Sewer System Improvements through the Clean Water State Revolving Fund. The total amount of funding is projected to be \$24,800,000. Funds drawn on the loan fund totaled \$3,834,253 for the year ended June 30, 2011.

NOTE 11 - UNBILLED REVENUE

An adjustment to record unbilled revenue has been recorded in the Power System. In prior years unbilled revenue had not been recorded; however, due to changes in the TVA billing to the Power System, the amount of unbilled revenue has become material to the financial statements. Unbilled revenue and corresponding increase in current year income of \$982,771 was recorded for the year ended June 30, 2011. Unbilled revenue for the Sewer and Water Funds is not material to the overall financial statements and therefore not recorded.

SUPPLEMENTAL INFORMATION

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
FOR THE YEAR ENDED JUNE 30, 2011

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEM
SUMMARY OF FIXED ASSETS-COMBINED SYSTEMS

DESCRIPTION	COST				ACCUMULATED DEPRECIATION					
	July 1, 2010	Additions	Disposals	June 30, 2011	July 1, 2010	Depreciation	Disposals	Salvage	Adjustments	June 30, 2011
Land and land rights	\$ 636,162	\$ -	\$ -	\$ 636,162	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	18,656,667	84,853	-	18,741,520	4,532,838	551,092	-	-	-	5,083,930
Distribution plant	62,553,010	741,862	(151,017)	63,143,855	28,419,967	1,733,482	(285,696)	-	-	29,857,753
Furniture & fixtures	714,188	17,487	-	731,675	636,045	16,535	(5,291)	-	-	647,289
Transportation equipment	2,035,289	222,245	-	2,257,534	1,921,762	177,077	(61,739)	-	-	2,037,100
Equipment	1,821,693	15,581	-	1,837,274	1,781,254	44,533	(18,497)	-	-	1,807,290
Construction in process	3,774,889	10,644,221	(6,402,423)	8,016,687	-	-	-	-	-	-
	<u>\$ 90,191,898</u>	<u>\$ 11,726,249</u>	<u>\$ (6,553,440)</u>	<u>\$ 95,364,707</u>	<u>\$ 37,291,866</u>	<u>\$ 2,512,719</u>	<u>\$ (371,223)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,433,362</u>

See accompanying accountants' report.

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
FOR THE YEAR ENDED JUNE 30, 2011

	COST				ACCUMULATED DEPRECIATION					
	July 1, 2010	Additions	Disposals	June 30, 2011	July 1, 2010	Depreciation	Disposals	Salvage	Adjustments	June 30, 2011
POWER SYSTEM:										
Land and land rights	\$ 277,359	\$ -	\$ -	\$ 277,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	819,945	21,883	-	841,828	569,429 *	20,308	-	-	-	589,737
Distribution plant	24,722,873	462,014	(125,544)	25,059,343	9,392,487 *	809,225	(250,929)	-	-	9,950,783
Furniture & fixtures	575,186	17,487	-	592,673	602,730	9,586	(5,291)	-	-	607,025
GIS Mapping	31,840	43,398	-	75,238	-	-	-	-	-	-
Transportation equipment	1,460,858	-	-	1,460,858	1,425,205	97,391	(61,739)	-	-	1,460,857
Tools, shop and garage equipment	274,101	2,900	-	277,001	266,153	18,273	(10,323)	-	-	274,103
Laboratory equipment	6,312	-	-	6,312	6,312	-	-	-	-	-
Communications equipment	93,788	12,681	-	106,469	93,788	20,740	(8,060)	-	-	106,468
Miscellaneous equipment	54,141	-	-	54,141	50,645	3,609	(114)	-	-	54,140
Construction in process	1,049,868	-	-	-	-	-	-	-	-	-
Total	\$ 29,366,271	\$ 2,508,191	\$ (1,865,328)	\$ 29,883,790	\$ 12,406,749	\$ 979,132	\$ (316,456)	\$ -	\$ -	\$ 13,049,425

	COST			ACCUMULATED DEPRECIATION						
	July 1, 2010	Additions	Disposals	June 30, 2011	July 1, 2010	Depreciation	Disposals	Salvage	Adjustments	June 30, 2011
WATER SYSTEM:										
Land and land rights	\$ 323,925	\$ -	\$ -	\$ 323,925	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	14,666,327	53,820	-	14,720,147	3,819,635 *	441,335	-	-	-	4,260,970
Purification system	459,223	17,979	-	477,202	103,768 *	18,507	-	-	-	122,275
Distribution plant	9,020,560	16,877	-	9,037,437	6,433,637 *	270,743	-	-	-	6,704,380
Consumer services	1,749,527	24,355	-	1,773,882	946,871 *	70,026	-	-	-	1,016,897
Meters	442,533	47,905	(14,623)	475,815	221,794 *	16,111	(14,623)	-	-	221,282
Hydrants	610,801	-	(1,632)	609,169	274,285 *	13,848	(1,632)	-	-	286,501
Furniture and fixtures	78,173	-	-	78,173	17,751 *	3,909	-	-	-	21,660
Transportation equipment	227,669	43,134	-	270,803	227,669	-	-	-	-	227,669
Lab equipment	23,671	-	-	23,671	12,138 *	1,185	-	-	-	13,323
Work equipment	1,014,620	-	-	1,014,620	1,014,620 *	-	-	-	-	1,014,620
Communication equipment	12,875	-	-	12,875	12,876	-	-	-	-	12,876
Construction in process	196,755	-	-	196,755	-	-	-	-	-	-
Total	\$ 28,826,659	\$ 1,022,213	\$ (551,834)	\$ 29,280,783	\$ 13,085,044	\$ 835,664	\$ (16,255)	\$ -	\$ -	\$ 13,904,453
			(568,089)							

	COST			ACCUMULATED DEPRECIATION						
	July 1, 2010	Additions	Disposals	June 30, 2011	July 1, 2010	Depreciation	Disposals	Salvage	Adjustments	June 30, 2011
SEWERAGE SYSTEM:										
Land and land rights	\$ 34,878	\$ -	\$ -	\$ 34,878	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	3,170,395	9,150	-	3,179,545	143,774	89,449	-	-	-	233,223
Electrical pumping equipment	6,140,513	3,240	-	6,143,753	5,988,625	170,399	(18,512)	-	-	6,140,512
Distribution plant	19,375,140	126,094	(9,218)	19,492,016	5,098,500	354,623	-	-	-	5,413,123
Furniture & fixtures	60,829	-	-	60,829	15,564	3,040	-	-	-	18,604
Transportation equipment	346,762	179,111	-	525,873	268,888	79,686	-	-	-	348,574
Tools and work equipment	297,243	-	-	297,243	297,243	-	-	-	-	297,243
Communications equipment	8,658	-	-	8,658	8,658 *	-	-	-	-	8,658
Miscellaneous equipment	36,284	-	-	36,284	18,821 *	726	-	-	-	19,547
Construction in process	2,528,266	7,878,050	(3,985,261)	6,421,055	-	-	-	-	-	-
Total	\$ 31,998,968	\$ 8,195,645	\$ (3,994,479)	\$ 36,200,134	\$ 11,800,073	\$ 697,923	\$ (18,512)	\$ -	\$ -	\$ 12,479,484

* Beginning balances reclassified

See accompanying accountants' report.

**SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
SCHEDULE OF DEBT SERVICE REQUIREMENTS-NOTES PAYABLE
POWER AND SEWERAGE SYSTEMS
FOR THE YEAR ENDED JUNE 30, 2011**

**Power System - Revenue and Refunding
Capital Outlay Note
Series 2002**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 195,000	\$ 13,636	\$ 208,636
2013	190,000	4,513	194,513
	<u>\$ 385,000</u>	<u>\$ 18,149</u>	<u>\$ 403,149</u>

**Sewerage System - Tennessee Revolving Loan Fund
Capital Outlay Note
SRF 2003-172**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 203,784	\$ 61,572	\$ 265,356
2013	207,276	58,080	265,356
2014	210,828	54,528	265,356
2015	214,440	50,916	265,356
2016	218,112	47,244	265,356
2017	221,856	43,500	265,356
2018	225,648	39,708	265,356
2019	229,524	35,832	265,356
2020	233,448	31,908	265,356
2021	237,444	27,912	265,356
2022	241,524	23,832	265,356
2023	245,652	19,704	265,356
2024	249,864	15,492	265,356
2025	254,148	11,208	265,356
2026	258,504	6,852	265,356
2027	262,819	2,429	265,248
	<u>\$ 3,714,871</u>	<u>\$ 530,717</u>	<u>\$ 4,245,588</u>

**Sewerage System - Tennessee Revolving Loan Fund
Capital Outlay Note**

Loan balance is \$4,771,599 as of June 30, 2011.

The payment schedule of the loan will be finalized when construction is completed.

See accompanying accountants' report.

SHELBYVILLE POWER, WATER AND SEWER SYSTEMS
SCHEDULE OF DEBT SERVICE REQUIREMENTS-BONDS PAYABLE
WATER AND SEWERAGE SYSTEMS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Year</u>	<u>Water and Sewer Revenue and Tax Refunding and Improvement Bonds, Series 2003</u>				<u>Water and Sewer Revenue and Tax Bonds Series 2007</u>				<u>Total</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2012	\$ 125,000	\$ 136,340	\$ 261,340	\$	\$ 50,000	\$ 104,808	\$ 154,808	\$	\$ 175,000	\$ 241,148	\$ 416,148	\$
2013	130,000	131,877	261,877		55,000	102,708	157,708		185,000	234,585	419,585	
2014	135,000	127,172	262,172		55,000	100,507	155,507		190,000	227,679	417,679	
2015	140,000	122,152	262,152		60,000	98,208	158,208		200,000	220,360	420,360	
2016	145,000	116,807	261,807		60,000	95,807	155,807		205,000	212,614	417,614	
2017	155,000	111,107	266,107		60,000	93,407	153,407		215,000	204,514	419,514	
2018	160,000	104,962	264,962		65,000	90,826	155,826		225,000	195,788	420,788	
2019	165,000	98,380	263,380		65,000	88,062	153,062		230,000	186,442	416,442	
2020	175,000	91,410	266,410		70,000	85,194	155,194		245,000	176,604	421,604	
2021	180,000	83,907	263,907		75,000	82,114	157,114		255,000	166,021	421,021	
2022	190,000	75,860	265,860		75,000	78,926	153,926		265,000	154,786	419,786	
2023	195,000	67,438	262,438		80,000	75,632	155,632		275,000	143,070	418,070	
2024	205,000	58,587	263,587		85,000	72,126	157,126		290,000	130,713	420,713	
2025	215,000	49,187	264,187		85,000	68,514	153,514		300,000	117,701	417,701	
2026	225,000	39,287	264,287		90,000	64,794	154,794		315,000	104,081	419,081	
2027	235,000	28,790	263,790		95,000	60,863	155,863		330,000	89,653	419,653	
2028	245,000	17,690	262,690		95,000	56,827	151,827		340,000	74,517	414,517	
2029	260,000	6,012	266,012		100,000	52,683	152,683		360,000	58,695	418,695	
2030	-	-	-		105,000	48,248	153,248		105,000	48,248	153,248	
2031	-	-	-		110,000	43,518	153,518		110,000	43,518	153,518	
2032	-	-	-		115,000	38,568	153,568		115,000	38,568	153,568	
2033	-	-	-		120,000	33,368	153,368		120,000	33,368	153,368	
2034	-	-	-		125,000	27,917	152,917		125,000	27,917	152,917	
2035	-	-	-		130,000	22,243	152,243		130,000	22,243	152,243	
2036	-	-	-		135,000	16,313	151,313		135,000	16,313	151,313	
2037	-	-	-		145,000	10,013	155,013		145,000	10,013	155,013	
2038	-	-	-		150,000	3,375	153,375		150,000	3,375	153,375	
	<u>\$ 3,280,000</u>	<u>\$ 1,466,965</u>	<u>\$ 4,746,965</u>		<u>\$ 2,455,000</u>	<u>\$ 1,715,569</u>	<u>\$ 4,170,569</u>		<u>\$ 5,735,000</u>	<u>\$ 3,182,534</u>	<u>\$ 8,917,534</u>	

See accompanying accountants' report.

**SHELBYVILLE POWER, WATER, AND SEWERAGE SYSTEMS
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Program Name</u>	<u>CFDA</u>	<u>Contract Number</u>	<u>Receivable (Deferred) July 1, 2010</u>	<u>Grant Receipts</u>	<u>Grant Expenditures/ Uses</u>	<u>Receivable (Deferred) June 30, 2011</u>
STATE FINANCIAL ASSISTANCE PROGRAMS:						
Capitalization Grant for Clean Water State Revolving Funds		CWSRF 2007-206	\$ -	\$ 3,834,253	\$ 3,834,253	\$ -
Total Federal and State Financial Assistance			\$ -	\$ 3,834,253	\$ 3,834,253	\$ -

See accompanying accountants' report.

**SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
JUNE 30, 2011**

Unaudited – See Accompanying Accountants' Report

ELECTRIC SYSTEM:

SCHEDULE FOR RESIDENTIAL RATES

CUSTOMER CHARGE	\$10.61
ENERGY CHARGE	\$0.09051 per KWH
FIRST 1000 KWH PER MONTH	\$101.12

SCHEDULE FOR COMMERCIAL RATES

SCHEDULES GSA (LESS THAN 50 KW)

IF CUSTOMER'S CURRENTLY EFFECTIVE CONTRACT DEMAND, IF ANY, OR ITS HIGHEST BILLING DEMAND DURING THE LATEST 12-MONTH PERIOD IS NOT MORE THAN 50 KW AND THE CUSTOMER'S MONTHLY ENERGY TAKINGS FOR ANY MONTH DURING SUCH PERIOD DO NOT EXCEED, 15,000 KILOWATT HOURS:

CUSTOMER CHARGE	\$15.77
ENERGY CHARGE	\$0.10065 per KWH

SCHEDULES GSA (FROM 50 KW TO 1000 KW)

IF CUSTOMER'S CURRENTLY EFFECTIVE CONTRACT DEMAND, IF ANY, OR ITS HIGHEST BILLING DEMAND DURING THE LATEST 12-MONTH PERIOD IS GREATER THAN 50 KW BUT NOT MORE THAN 1000 KW AND THE CUSTOMER'S MONTHLY ENERGY TAKINGS FOR ANY MONTH DURING SUCH PERIOD EXCEED 15,000 KILOWATT HOURS:

CUSTOMER CHARGE	\$46.20
DEMAND CHARGE:	
FIRST 50 KW PER MONTH	NO CHARGE
OVER 50 KW PER MONTH	\$12.33 per KW
ENERGY CHARGE:	
FIRST 15,000 KWH PER MONTH	\$0.10213 per KWH
OVER 15,000 KWH PER MONTH	\$0.06117 per KWH

GSA3 (Greater than 1000 KW Contract or Highest 12 Month Measured KW greater than 1000 KW but Measured KW for month is less than 1000 KW)

CUSTOMER CHARGE	\$163.67
DEMAND CHARGE	
FIRST 1000 KW	\$11.13 per KW
OVER 1000 KW	\$11.24 per KW
ENERGY CHARGE	
ALL KWHR	\$0.06442 per KWHR

**SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
JUNE 30, 2011**

Unaudited – See Accompanying Accountants' Report

ELECTRIC SYSTEM (Continued):

**GSA3 (Greater than 1000 KW Contract or Highest 12 Month Measured greater than 1000 KW
but Measured KW for month is greater than 1000)
(Must be eligible for Small Manufacturing Credit)**

CUSTOMER CHARGE	\$163.67
DEMAND CHARGE	
FIRST 1000 KW	\$9.75 per KW
OVER 1000 KW	\$9.61 per KW
ENERGY CHARGE	
ALL KWH	\$0.05902 per KWH

**MSB (Greater than 5000 KW Contract or Highest 12 Month Measured KW greater than 5000
KW and SIC is 20-39 but Measured KW for month is less than 5000 KW)**

Manufacture Rates

CUSTOMER CHARGE	\$1,850.00
DEMAND CHARGE	
ALL KW	On-Peak \$16.00 per KW Off-Peak \$ 3.92 per KW
ENERGY CHARGE	
FIRST 425 KWH/KW	On-Peak (all KWH) \$0.08011 per KWH Off-Peak \$0.04685 per KWH (Example 620 * KW compared to measured KWH)
NEXT 195 KWH/KW	Off-Peak \$0.02874
ADDITIONAL KWH	Off-Peak \$0.01337

Facilities Rental (Delivery Point less than 46 KV)	\$0.93 per KW
Equipment Rental	1.5% of Installed Cost per month

**SMSB (Greater than 5000 KW Contract or Highest 12 Month Measured KW greater than 5000
KW and SIC is 20-39 but Measured KW for month is less than 5000 KW)**

Manufacture Rates

CUSTOMER CHARGE	\$1,850.00
DEMAND CHARGE	
ALL KW	\$18.22 per KW
ENERGY CHARGE	
ALL KWH	\$0.04170 per KWH

Facilities Rental (Delivery Point less than 46 KV)	\$0.93 per KW
Equipment Rental	1.5% of Installed Cost per month

**SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
JUNE 30, 2011**

Unaudited – See Accompanying Accountants' Report

ELECTRIC SYSTEM (Continued):

GSB (Greater than 5000 KW Contract or Highest 12 Month Measured KW greater than 5000 KW and SIC is not 20-39)

Commercial Rates

CUSTOMER CHARGE		\$1,850.00
DEMAND CHARGE		
ALL KW	On-Peak	\$16.00 per KW
	Off-Peak	\$ 3.92 per KW
ENERGY CHARGE		
FIRST 425 KWH/KW		
	On-Peak (all KWH)	\$0.09483 per KWH
	Off-Peak	\$0.06119 per KWH
	(Example 425 * KW compared to measured KWH)	
NEXT 195 KWH/KW	Off-Peak	\$0.04308
ADDITIONAL KWH	Off-Peak	\$0.02771
Facilities Rental (Delivery Point less than 46 KV)		\$0.93 per KW
Equipment Rental		1.5% of Installed Cost per month

SECURITY LIGHTS

175 WATT M.V.	\$7.21
400 WATT M.V. (Flood or Cobra head)	\$14.02
200 WATT HPS	\$9.88
250 WATT HPS	\$11.36
100 WATT HPS	\$6.82

**SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
JUNE 30, 2011**

Unaudited – See Accompanying Accountants' Report

WATER SYSTEM:

RESIDENTIAL, COMMERCIAL, AND INDUSTRIAL:

	<u>Inside City</u>	<u>Outside City</u>
First 2,000 gallons	\$11.40 minimum charge	\$15.20 minimum charge
Next 8,000 gallons	4.30 per 1,000 gal	6.00 per 1,000 gal
Next 10,000 gallons	2.75 per 1,000 gal	3.85 per 1,000 gal
Next 30,000 gallons	2.40 per 1,000 gal	3.30 per 1,000 gal
Next 50,000 gallons	2.15 per 1,000 gal	3.00 per 1,000 gal
Over 100,000 gallons	2.05 per 1,000 gal	2.65 per 1,000 gal

UTILITY DISTRICTS:

Flat Creek Water Co-op:

First 6,000,000 gallons	Inside Rate
Over 6,000,000 gallons	\$2.75 per 1,000 gal

An additional \$.05 per 1,000 gallons for Duck River Agency charge is included in billing, but is not reflected in the above rates.

SPRINKLER CONNECTIONS:

Valve heads or fire hydrants	\$23.60 per month
City fire hydrants	10.30 per month

SEWERAGE SYSTEM:

	<u>Inside City</u>	<u>Outside City</u>
First 2,000 gallons	\$16.70 minimum charge	\$21.50 minimum charge
Next 8,000 gallons	7.40 per 1,000 gal	9.55 per 1,000 gal
Next 10,000 gallons	5.75 per 1,000 gal	7.00 per 1,000 gal
Next 30,000 gallons	5.10 per 1,000 gal	6.15 per 1,000 gal
Next 50,000 gallons	4.75 per 1,000 gal	5.75 per 1,000 gal
Over 100,000 gallons	4.40 per 1,000 gal	5.50 per 1,000 gal

Average number of customers for fiscal year 2011:

Power System	9,720
Water System	8,806
Sewerage System	8,001

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
SCHEDULE OF UNACCOUNTED FOR WATER
JUNE 30, 2011

Unaudited - See Accompanying Accountants' Report

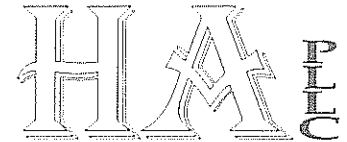
(All amounts in gallons)

A	Water Treated and Purchased:	
B	Water Pumped (potable)	1,408,380,000
C	Water Purchased	0
D	Total Water Treated and Purchased	1,408,380,000
E	Accounted for Water:	
F	Water Sold	1,090,858,800
G	Metered for Consumption	37,266,920
H	Fire Department Usage	303,795
I	Flushing	34,217,509
J	Tank Cleaning/Filling	757,350
K	Street Cleaning	27,200
L	Bulk Sales	0
M	Water Bill Adjustments	377,600
N	Total Accounted for Water	1,163,809,174
O	Unaccounted for Water	244,570,826
P	Percent Unaccounted for Water	17.3654%
Q	Other (explain)	
	Not applicable	

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

INTERNAL CONTROL AND COMPLIANCE SECTION

HOUSHOLDER ARTMAN, PLLC
CERTIFIED PUBLIC ACCOUNTANTS



P.O. Box 1568
Tullahoma, Tennessee 37388

Telephone 931-455-4248
Fax 931-393-2122

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

February 6, 2012

Board of Directors
Shelbyville Power, Water and Sewerage Systems
Shelbyville, Tennessee

We have audited the accompanying financial statements of Shelbyville Power, Water and Sewerage Systems as of and for the year ended June 30, 2011, and have issued our report thereon dated February 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelbyville Power, Water and Sewerage Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shelbyville Power, Water and Sewerage Systems' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Shelbyville Power, Water and Sewerage Systems' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shelbyville Power, Water and Sewerage Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Shelbyville Power, Water, and Sewer System's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Shelbyville Power, Water, and Sewer System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, State Comptroller's Office, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Honsholder Arthur PLLC

**SHELBYVILLE POWER, WATER, AND SEWERAGE SYSTEMS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2011-01:

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Organization possesses an accounting department that is staffed with personnel with the requisite skills and training to perform such functions and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us by management that were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the disclosures required by professional standards.

Recommendation:

Management may wish to acknowledge and accept this deficiency or develop compensating controls.

Management Response:

Due to current time and budget constraints, it is not feasible for us to perform these functions internally. The current financial statements and related notes have been reviewed by management and management has taken responsibility for the information contained therein. Management will continue to monitor the situation and consider other options in future years.

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
DISPOSITION OF PRIOR YEAR FINDINGS
JUNE 30, 2011

Finding 2010-01:

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Organization possesses an accounting department that is staffed with personnel with the requisite skills and training to perform such functions and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us by management that were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the disclosures required by professional standards.

Current Status:

See current year's schedule of findings and responses.